

## Message Text

CONFIDENTIAL

PAGE 01 BONN 11528 01 OF 02 130853Z  
ACTION EB-04

INFO OCT-01 SS-04 EUR-03 CEA-01 FRB-03 NSC-04 NSCE-00  
INR-01 CIAE-00 ISO-00 /021 W  
-----032685 130901Z /15

P R 130844Z JUL 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC PRIORITY 9773  
DEPARTMENT TREASURY PRIORITY  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 11528

USEEC, USOECD

LIMDIS - GREENBACK

E.O. 11652: GDS  
TAGS: ECON, EFIN, GW  
SUBJECT: GERMAN ECONOMIC AND MONETARY POLICY

1. SUMMARY -- FINANCE AND ECONOMICS MINISTRY POLICY-  
LEVEL OFFICIALS ARE NOW COMING AROUND TO THE VIEW THAT  
FURTHER STIMULATIVE MEASURES PROBABLY ARE CALLED FOR  
THIS FALL. WITH APEL AND FRIDERICHs BOTH UNDER ATTACK  
FROM THE LEFT WINGS OF THEIR PARTIES, NEITHER MINISTER  
IS LIKELY TO WANT TO PUSH FOR THE TYPE OF INVESTMENT  
BONUS, MORE GENEROUS DEPRECIATION ALLOWANCES, ETC.  
THAT MANY ECONOMISTS AND CIVIL SERVANTS THINK MOST  
USEFUL. MOST BONN OFFICIALS FEEL THAT A FURTHER  
EASING OF INTEREST RATES WOULD BE DESIRABLE AND SOME  
OF THE BEST INFORMED THINK THAT THE BUNDESBANK IS  
ALSO COMING AROUND TO THIS VIEW AND THAT THE CENTRAL  
BANK COUNCIL WILL TAKE SOME ACTION IN THIS DIRECTION,  
POSSIBLY THIS WEEK. END SUMMARY.

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PAGE 02 BONN 11528 01 OF 02 130853Z

2. POLICY-LEVEL FINANCE MINISTRY OFFICIALS FEEL THAT  
REGARDLESS OF PROBLEMS IN THE STATISTICS, IT IS QUITE  
CLEAR THAT THE ECONOMY IS NOT EXPANDING SUFFICIENTLY  
AND THAT THIS MOST LIKELY WILL CONTINUE TO BE THE CASE  
AT THE END OF THE SUMMER MONTHS. FINANCE MINISTER APEL  
AGREES AND PROPOSES TO TRY TO SPEED UP GOVERNMENT  
EXPENDITURE AS MUCH AS POSSIBLE WITHIN THE FRAMEWORK OF

THE CURRENT BUDGET AND MEDIUM-TERM INVESTMENT PROGRAM. APEL ALSO IS PROPOSING TO MAINTAIN 1978 FEDERAL EXPENDITURES AS PLANNED AND THUS INCREASE THE DEFICIT SOMEWHAT BECAUSE OF THE LOSS OF REVENUES TO THE STATES IN THE RECENT VALUE-ADDED TAX DIVISION (SEE BONN 11331). THIS AND THE PACKAGE OF MEASURES ENACTED DURING THE LAST FEW MONTHS SHOULD HELP, BUT NOT SUFFICIENTLY. APEL IS SOLICITING ADDITIONAL IDEAS FROM HIS STAFF, BUT AT THE SAME TIME TELLING THEM THAT INCREASED INVESTMENT INCENTIVES, DEPRECIATION ALLOWANCES, ETC. AS ADVOCATED IN THE PAST BY ECONOMICS MINISTER FRIDERICH'S ARE OUT BECAUSE THEY WOULD NOT BE SUPPORTED BY THE SPD BUNDESTAG FACTION. MORE GENERALLY, HIS SENIOR STAFF HAS THE IMPRESSION THAT AFTER HIS RECENT LOSS (AND FAILURE TO GAIN THE SUPPORT OF SCHMIDT) IN THE TAX DIVISION FIGHT (SEE BONN 11196, PARA 6), APEL -- AT LEAST FOR THE TIME BEING -- IS COMPLETELY GUN-SHY OF ANY FURTHER FIGHTS WITH THE SPD'S LEFT WING AND THAT THIS COULD VERY MUCH LIMIT HIS ROOM TO MANEUVER ON ECONOMIC POLICY MATTERS IN THE FALL.

3. NOT ALL POLICY-LEVEL ECONOMICS MINISTRY OFFICIALS FULLY SHARE THE PESSIMISM OF THE MINISTRY'S CHIEF SHORT-TERM FORECASTER (SEE BONN 11443). INSTEAD THEY CONTINUE TO STRESS THE VERY GREAT UNCERTAINTY IN ALL INDUSTRIAL PRODUCTION AND ORDER STATISTICS, WITH NEW MAJOR ERRORS

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PAGE 03 BONN 11528 01 OF 02 130853Z

CONTINUING TO BE DISCOVERED AND FURTHER REVISIONS GOING BACK TO JANUARY TO BE EXPECTED. THEY FEEL THAT THE ONE RELIABLE STATISTIC AVAILABLE -- THAT OF UNEMPLOYMENT -- DOES INDICATE THAT THE ECONOMIC EXPANSION IS NOT NOW PROCEEDING AT THE HOPED FOR 5 PERCENT REAL GNP GROWTH RATE. BUT IN THEIR VIEW IT REMAINS QUITE OPEN WHAT THE FIRST HALF GROWTH RATE IN FACT WILL TURN OUT TO BE. IT COULD BE ANYWHERE FROM 2.0 - 4.5 PERCENT. IN VIEW

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PAGE 01 BONN 11528 02 OF 02 131004Z

ACTION EB-04

INFO OCT-01 EUR-03 ISO-00 SS-04 CEA-01 FRB-03 NSC-04

NSCE-00 INR-01 CIAE-00 /021 W

-----033425 131008Z /13

P R 120953Z JUL 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 9774

DEPARTMENT TREASURY PRIORITY

INFO AMEMBASSY BRUSSELS

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 02 OF 02 BONN 11528

OF THIS THEY ARE QUITE CONTENT TO POSTPONE CONSIDERATION OF FURTHER MEASURES TILL THE FALL WHEN THE STATISTICAL BASE HOPEFULLY WILL BE SOMEWHAT CLEARER. BUT THEY HAVE LITTLE DOUBT THAT SOME FURTHER STIMULATIVE MEASURES WILL BE NEEDED. THE QUESTION IS WHAT MEASURES, AND HERE ECONOMICS MINISTRY OFFICIALS -- LIKE THEIR FINANCE MINISTRY COLLEAGUES -- ARE STILL AT A LOSS. THEY JUDGE THAT PERMANENT INVESTMENT INCENTIVES WILL BE POLITICALLY IMPOSSIBLE, NOT JUST BECAUSE OF OPPOSITION WITHIN THE SPD BUT ALSO BECAUSE MINISTER FRIDERICH'S WHO IS UNDER SEVERE ATTACK FROM THE LEFT WING OF HIS OWN PARTY COULD NOT EVEN GAIN FDP SUPPORT FOR THEM. SOME TEMPORARY INCENTIVES UNDER THE STABILITY AND GROWTH LAW MAY HAVE A SLIGHTLY BETTER CHANCE. POLITICALLY EASIEST WOULD BE A REDUCTION IN INDIVIDUAL INCOME TAX RATES. THE PROBLEM HERE IS, HOWEVER, THAT IT WOULD PROBABLY TAKE ABOUT 9 MONTHS TO ENACT AND IMPLEMENT TAX LEGISLATION. FURTHERMORE, GERMAN EXPERIENCE HAS BEEN THAT INCOME TAX REDUCTIONS HAVE LITTLE ANTICIPATORY EFFECT ON CONSUMER SPENDING, BUT RATHER CAN HAVE A DELAYED EFFECT WITH THE TAX SAVING IN THE FIRST INSTANCE  
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PAGE 02 BONN 11528 02 OF 02 131004Z

GOING INTO INCREASED SAVING DEPOSITS. FINALLY, THE COALITION HAD HOPED TO SAVE AN INCOME TAX REDUCTION FOR 1979 WHEN IT WOULD HAVE MAXIMUM ELECTION EFFECTIVENESS SIGNIFICANT INCREASES IN FEDERAL SPENDING BEYOND PRESENT PLANS UNDER THE MEDIUM-TERM INVESTMENT PROGRAM ARE REJECTED BY MOST ECONOMIC MINISTRY POLICY OFFICIALS. THEY WOULD LIKE TO SEE SOME PICK UP IN LOCAL GOVERNMENT SPENDING AND DEFICITS, HOWEVER.

4. MOST FINANCE AND ECONOMICS MINISTRY OFFICIALS AGREE THAT THE ONE MEASURE WHICH WOULD BE HELPFUL AND COULD

BE IMPLEMENTED QUICKLY WOULD BE BUNDESBANK ACTION TO  
FURTHER REDUCE INTEREST RATES. UNTIL NOW THE BUNDES-  
BANK HAS BEEN RESISTING MINISTRY SUGGESTIONS TO THIS  
END WITH THE ARGUMENT THAT FURTHER MONETARY EASING WOULD  
BE CONTRARY TO ITS MONETARY GROWTH TARGET AND ALSO MIGHT  
BE CONSIDERED ABROAD AS AN INAPPROPRIATE SUPPORT  
FOR THE EXCHANGE RATE OF THE DM. USUALLY VERY WELL  
INFORMED OFFICIALS NOW SEE, HOWEVER, SIGNS OF CHANGE IN  
THE BUNDESBANK ATTITUDE AND DO NOT EXCLUDE FURTHER  
MONETARY EASING, POSSIBLY AT TOMORROW'S (THURSDAY)

CENTRAL BANK COUNCIL MEETING.  
CASH

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